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INFO RUEHZL/EUROPEAN POLITICAL COLLECTIVE
RUEHKW/AMCONSUL KRAKOW 1777
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
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UNCLAS SECTION 01 OF 02 WARSAW 001723

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DEPT FOR EUR/NCE, EUR/ERA, EEB
EUR/NCE FOR BPUTNEY
COMMERCE FOR 4232/ITA/MAC/EUR/JBURGESS, JKIMBALL, MRODGERS
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SUBJECT: WARSAW STOCK EXCHANGE BOOMING BUT FACES CHALLENGES

REF: Septel

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¶1. (U) Summary: Until a long-expected correction in July 2007, Warsaw Stock Exchanges (WSE) indices have been breaking new records and reaching new highs for over three years. The WSE is central Europe's leader in IPOs with 39 in less than 7 months. The number of foreign companies on the WSE is also increasing. Despite the fact that the exchange's status as one of the few state-owned exchanges in the EU has proven problematic, the GOP's desire to retain ownership and control is strong. End Summary.

Background

¶2. (U) The Warsaw Stock Exchange is the largest stock exchange in Central and Eastern Europe. As of June 2007, its total market capitalization amounted to \$322 billion with 314 listed companies. The WSE is a member of the World Federation of Exchanges and the Federation of European Securities Exchanges. Stocks, bonds, subscription rights, allotment certificates, investment certificates, and derivative instruments, futures, options and index participation units actively trade on WSE.

Organizational and Regulatory framework

¶3. (U) The Warsaw Stock Exchange is a non-profit joint-stock company founded by the Polish State Treasury. The company has a share capital of PLN 41,972,000 (\$ 15,425,211.32) divided into 59,960 registered shares. At the end of June 2007, WSE's members included 39 entities including banks, brokerage firms, an Exchange company and the State Treasury. The General Meeting is the WSE's highest decision-making body. Its role is to implement changes to the Statutes and Rules and to elect members of the Supervisory Board. It consists of representatives of the State Treasury, banks and brokerage houses and WSE's shareholders. The Supervisory Board controls the operation of the exchange, admits securities for trading, and grants and recalls stock exchange membership. It consists of 12 members appointed by the General Meeting. The Management Board co-ordinates the WSE's day-to-day operations. The Management Board consists of five members. The President, elected by the General Meeting for a three-year term, directs Management Board activities.

History

14. (U) The WSE was established in 1817 and was the first stock exchange in Poland. It was closed with the outbreak of the 2nd World War. Attempts to reactivate the WSE operation after 1945 failed under the Communist regime. It was reestablished by the State Treasury on April 16, 1991. At the same time, the Polish Securities Commission, with a chairman appointed by the Prime Minister, was created. The legal framework establishing the WSE and capital markets activities, the Act on Public Trading in Securities and Trust Funds, was adopted in March 1991. From the reestablishment of the WSE, electronic paperless trading was utilized. On the first trading day only 5 stocks were listed with a turnover of \$2,000.

Warsaw Indices Breaking New Records

15. (U) 2006 was the third subsequent year that the WSE's main indices achieved positive rates of return. The index of the smallest listed companies, the SWIG80, recorded the highest return of 132%. The runner up was the mWIG40 with a growth rate of 69%. The broad market index, the WIG, climbed by 43%, while the WIG20, the index of major companies grew by 24% throughout the year.

Warsaw as IPO leader

16. (U) With its 20 IPOs in the second quarter of 2007, the WSE ranked second in Europe for new issues after the London Stock Exchange which posted 36 IPOs. The WSE expanded drastically in the first half of this year. There have been 39 IPOs year to date, more than the 38 IPOs recorded in 2006. The two IPOs issued in late July set a new WSE record of nine IPOs in a single month, beating the previous record set in July 2005 of six IPOs. The value of this

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year's IPOs has been close to PLN 16 billion (\$ 5.87 billion), including PLN 13.7 billion (\$5.03 billion) of new share issues. This sets a historical record for the WSE as the value of IPOs in the record-breaking year 2004 was PLN 13.1 billion (\$4.81 billion), including only PLN 1.5 billion (\$.55 billion) of new share issues. Mr.Sobolewski, the President of the WSE, predicts that the WSE may host 60 IPOs this year. However, with 39 IPOs already launched and many more in the pipelines, that estimate may be conservative.

Foreign company presence

17. (U) The presence of foreign companies on the WSE is increasing. Mr.Sobolewski is upbeat about the WSE's future activity as five more foreign companies are expected to list this year. He notes that the WSE may have more foreign listings before the end of the year than all companies listed in Vienna combined. There are 16 foreign companies listed on the WSE as of July 24, 2007.

GOP control

18. (SBU) The current GOP's desire to retain ownership of the WSE as a strategic asset is unwavering. The State Treasury's stake is currently 98.81%, which Mr. Sobolewski described as an "exotic structure". The WSE's status as one of the few state-owned exchanges in the EU has been nothing but problematic for the institution. State ownership was the key reason that the WSE lost a bid to purchase the Vilnius exchange. (The private Nordic exchange, OMX, won the bid.)

19. (SBU) The Polish government has been considering selling a minority stake of approximately 40% in the exchange, possibly later this year. However, Treasury Minister Jasinski is only interested

in selling to Polish investors. The European Commission recently told the GOP that it may not discriminate among EU Member States. This played into President Sobolewski's hands as he supports privatization. Sobolewski told us that "we have to aggressively strengthen our position. We can't think of ourselves as only a national market." Sobolewski plans to buy stakes in other central European exchanges in addition to bringing in new listings from other countries in the region. Market analysts agree that it is important for the WSE to expand, especially to be able to attract Polish firms which are large enough to list on bigger and more liquid regional exchanges.

Vienna Rivalry

¶10. (SBU) The Vienna stock exchange is Warsaw's biggest rival due to its similar size and regional expansion plans. Sobolewski questions whether Vienna even belongs to the CEE region. However, he stresses that Warsaw has a leg up on Vienna due to its "special expertise in former communist countries transitioning to capitalism." Market analysts agree that his ambitions for expansion are realistic and stress that Warsaw is a more natural place for Ukrainian or Bulgarian firms to list, as Vienna is perceived as a Western exchange.

Comment

¶11. (SBU) The WSE has been crucial in building the foundations of a market economy in Poland over the last 17 years. Listings and prices have been booming as Polish pension funds can invest up to 40 % of the value of their assets in shares in Poland. However, the WSE CEO's dream of becoming the main regional stock exchange will only come true if the GOP allows a partial privatization. In the current political situation there seems little likelihood the current GOP will give up control of the WSE as it is considered one of its most important institutions.

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